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C O N F I D E N T I A L PANAMA 001836

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E.O. 12958: DECL: 08/04/2016

TAGS: [ECON](#) [EFIN](#) [EINV](#) [KCOR](#) [PM](#)

SUBJECT: GOP SLEIGHT OF HAND DEALING IN GAMING INDUSTRY

REF: A. PANAMA 676

¶B. PANAMA 973

Classified By: CDA L. Arreaga for reasons 1.4 (b) & (d)

¶1. (C) SUMMARY. Despite overcoming two key bureaucratic hurdles, U.S.-based Merit Management continues to encounter what they believe to be high-level GOP obfuscation and delays in securing the license for its \$8 million casino in Colon. Merit attributes its delay to financial incentives from the existing gaming industry to GOP officials. Senior GOP officials reiterated President Torrijos is personally opposed to the proliferation of casinos (reftels A & B). In separate incidents, the Embassy received documentary and verbal evidence supporting allegations of President Torrijos' thwarting the 2005 licensing application by the Panamanian company Royal Games under pressure from former President Ernesto Perez Balladares. Perez Balladares is reportedly a major shareholder in a competing gaming company and aspires to the Presidency of the ruling PRD party. The cartel-like dominance of existing industry operators with the apparent support of the GOP, and the public debate over the social effects of gambling in a country with a 40% poverty level combine to inhibit competition in the gaming industry. END SUMMARY

MERIT LICENSE APPLICATION DELAYED BY THE PRESIDENCY

¶2. (C) After almost a year in limbo, the gaming license application of U.S. investor Merit Management proceeded from the Gaming Board to the Pleno on July 19 where it was approved. (The Pleno consists of the Minister of Economy and Finance (MEF), Vallarino, the Controller Dani Kuzniecky and Legislator Juan Hernandez). Post attributes this forward movement to two factors. First, the replacement of Council for Public Security and National Defense (CONSEJO) Director, Leonel Solis, who had been accused of seeking bribes to complete the processing of CONSEJO background checks purportedly required by Merit's licensing application (Ref A). Secondly, inquiries by Embassy to Controller Dani Kuzniecky alerted the Pleno to the length of time the application had been pending and began a series of inquiries as to why the Gaming Board had not scheduled a Pleno meeting in several months.

¶3. (SBU) Despite difficulty getting timely submissions from Gaming Board Director Raul Cortizo for each step in the approval process, Merit's contract with the MEF was signed August 21 and approved by the National Economic Council

(CENA) on September 5. (The CENA consists of Minister Vallarino, Controller Kuzniecky, Minister of Commerce Ferrer, Banco Nacional Manager Juan de Dianous and a rotating member of the Assembly.) After CENA approval, the application was scheduled for Executive Cabinet review on September 6.

¶4. (SBU) On September 6, VP/FM Lewis reportedly informed Merit executive and their local legal representation (Jimmy Arias, close friend and advisor to Torrijos) that Merit's license was not on the Cabinet agenda for that day. Later that week, Merit reported they were advised they would be on the agenda the following week. Merit had already received written approval from the Gaming Board to install its gaming machines and planned a "soft opening" (unadvertised) the week of September 11 with a grand opening October 12.

¶5. (SBU) The September 13 Cabinet meeting also failed to act on Merit's application, preventing its "soft" opening that week. Merit executive told Econoff that Vallarino did not show at the meeting purportedly due to an unrelated fall out between Vallarino and Torrijos. According to Merit's attorney and close friend of Torrijos, Jimmy Arias, Torrijos claims he needs to make up to Vallarino but is not yet ready to do so and doesn't want to exacerbate the alleged conflict by ruling on Merit's application in Vallarino's absence. With Torrijos scheduled to be out of the country at the UN General Assembly opening, the earliest this application can be reconsidered is September 27th. (Note: Torrijos is scheduled to meet with various USG officials on the margins of UNGA. End Note.)

ROYAL GAMES ALLEGES HIGH LEVEL GOP CORRUPTION

¶6. (C) Representatives from Panamanian company Royal Games, Jose Ventura, Sr. and Jr., told Econoffs they had an application for a bingo establishment before the Pleno in April 2005. The evening of the Pleno meeting (April 18), they received a phone call from Cortizo advising them that their application had been approved. When no resolution was received, they contacted an attorney at the Gaming Board and recorded this conversation. This attorney at the Gaming Board reportedly stated Director Cortizo received an irate phone call from President Torrijos on Tuesday April 19 who demanded this license be "unapproved" and said he didn't want any more such establishments approved for 5 years.

¶7. (C) Royal Games' source at the Gaming Board further alleged former Panamanian President Ernesto Perez Balladares expected Torrijos to preserve the existing oligopoly in Panama's gaming industry comprised of Thunderbird (Canada), Codere (Spain), and Cirsa (Spain). The gaming industry in Panama was privatized during the Perez Balladares administration and the source stated Perez Balladares is a major shareholder in Cirsa. Royal Games was directed to approach the incumbent gaming companies and not the GOP to move their license forward.

¶8. (C) Instead, Royal Games sought and received a directive from the Supreme Court that the Pleno publish its resolution from the April 18th meeting. On May 30, 2006 (one year later), they received an official denial signed by Controller Dani Kuzniecky, Minister Vallarino (who was not present at the April 2005 meeting) and Assembly president Elias Castillo.

WHAT'S AT STAKE

¶9. (U) Press accounts of Gaming Board statistics report Panama has officially licensed 13 full casinos and 26 gaming rooms. Between slot machines and table games, \$238 million USD was wagered in 2005, up 10% from 2004. Citing the social impact of gambling on Panama's poor families, National Assembly Deputy Jorge Hernan Rubio (Partido Popular) proposed modifications to Panama's Gaming Law 22 to limit casino entrance to non-resident foreigners and "certified"

Panamanians/Panamanian residents with a monthly income of \$1000 USD or more. The legislation faced opposition from the Gaming Industry and appeared to have died in committee.

¶10. (U) NOTE: According to media accounts, Thunderbird's tribal gaming operations in California ceased operations in 1998 amid scandal and litigation. Leading Codere shareholder, Joaquin Franco (grandson of Spanish dictator Francisco Franco) was arrested in Arizona in 2004 for allegedly skimming gambling proceeds, falsifying records and attempting to bribe a gaming official. END NOTE.

COMMENT

¶11. (SBU) The explanations of the continued delay of Merit's license application raise questions about transparency. In conjunction with Royal Games' allegations, Merit's experience suggests that powerful GOP and gaming industry interests may be actively preventing other, perhaps more reputable players, into their lucrative games.

ARREAGA